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TAGS: [EPET](#) [ENRG](#) [ECON](#) [PREL](#) [KU](#)
SUBJECT: NOPEC DEMARCHE: OPEC GOVERNOR AND KPC COUNSEL SAY
NOPEC COULD HAVE CHILLING EFFECTS

REF: A. KUWAIT 1005
[1](#)B. STATE 88197

Classified By: Ambassador Richard LeBaron for reasons 1.4 (b) and (d).

[1](#)1. (C/NF) Following Ambassador's June 26 conversation with the Foreign Minister (ref A), Econoff delivered ref B demarche separately to Kuwait OPEC Governor Dr. Seham Razzouqi and Kuwait Petroleum Corporation (KPC) Deputy Managing Director and General Counsel Shaykh Nawaf Saud Nasir Al-Sabah on July 3. Razzouqi said the GOK was "not happy" with the news of NOPEC passage through the House and Senate and considered the rejection of sovereign immunity to be contrary to international law. She suggested the legislation could have "very serious ramifications" affecting the willingness of producing countries to make the significant investments required to expand production capacity. She noted that Kuwaiti investment in the United States would also be affected. Razzouqi rejected the proposition that OPEC countries bear significant responsibility for current high prices, which she attributed more to robust demand growth and under-investment in refining capacity in consuming countries.

She also said the influence of geopolitics on price was overstated and distracting, arguing that economic fundamentals played a much larger role. Razzouqi added that OPEC production capacity is constrained, and producing countries need to receive clearer and more consistent signals from consuming countries that demand growth will remain strong before they take on the significant risk of major investments in new production capacity. She specifically criticized overly restrictive environmental regulations in OECD countries and high-level policy statements about reducing dependence on oil. She said there was already discussion between OPEC members about scaling back on investments in response to NOPEC. Razzouqi suggested that consuming countries need to "get their own houses in order" and educate their publics about the real factors affecting oil and gasoline prices rather than publicly casting the blame on OPEC.

[1](#)2. (C/NF) Al-Sabah said the passage of NOPEC could have a "chilling effect" on economic relations between OPEC countries and the United States. He added that even if the bill is now vetoed, its strong support in the Congress still sends a "threatening message." Son of a former Kuwaiti Ambassador to the U.S. and a graduate of Princeton University and Harvard Law School, Al-Sabah said he understood the role of U.S. domestic politics in the strong support for NOPEC in Congress, but nevertheless, he was alarmed that some senators who are leading presidential candidates had supported the bill. Al-Sabah said KPC was already reconsidering planned petrochemical and refinery investments in the U.S. that could amount to billions of dollars. He said he also expected

Kuwait Investment Authority to re-evaluate its multi-billion dollar portfolio of U.S. investments. Al-Sabah said that in a memorandum to KPC Acting CEO Saad Al-Shuwaib, he characterized NOPEC as an act of "economic war." He added that if NOPEC becomes law, he will advise KPC to sell off all of its U.S. assets. Al-Sabah did concede that an increase in OPEC production levels and a corresponding drop in prices could serve to erode U.S. Congressional support for NOPEC.

¶3. (C/NF) The Ambassador also discussed the Administration's position on NOPEC legislation with Petroleum Advisor to the Amir Khaled Al-Fulaij during a June 30 meeting.

¶4. (C/NF) Comment: Kuwait has consistently resisted efforts by other OPEC members to limit supply and drive up prices. They see NOPEC as a perverse and ill-targeted political gesture that will damage U.S. friends, not countries such as Venezuela and Iran. Kuwait has been a strong investor in U.S. Treasury bills, real estate, and equities. The prospects of a Kuwaiti investment in U.S. refining capacity are probably close to zero given the specter of NOPEC. The legislation is a disaster for current U.S. efforts to promote investment in the U.S., and has done considerable damage even before becoming law.

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LeBaron